

SUBJECT: Designating research funding and provisions for certain universities

COMMITTEE: Higher Education — committee substitute recommended

VOTE: 10 ayes — Kuempel, Paul, Bucy, Burns, Clardy, Cole, M. González, Howard, Lalani, Raney

0 nays

1 absent — Burrows

WITNESSES: For — (*Registered, but did not testify:* Alexis Flores, Austin Regional Manufacturing Association; Travis Krogman, Greater Austin Chamber of Commerce; Gary Farmer, Greater Austin Economic Development Corporation; Crystal Brown, Greater Houston Partnership; Jennifer Rodriguez, North Texas Commission; Stacy Schmitt, Gilbert Zavala, Opportunity Austin; Renzo Soto, Texas 2036; Stephanie Matthews, Texas Association of Business; Justin Yancy, Texas Business Leadership Council)

Against — None

On — Kelly Damphousse, Texas State University; Lawrence Schovane, Texas Tech University; Renu Khator, University of Houston System; Neal Smatresk, University of North Texas (*Registered, but did not testify:* Harrison Keller, Texas Higher Education Coordinating Board; Whitney Blanton, Anca Ion, Texas Treasury Safekeeping Trust Company)

BACKGROUND: Sec. 62.095 of the Education Code establishes provisions of the Texas comprehensive research fund to appropriate funds to eligible academic institutions. For each fiscal year, the fund is required to appropriate amounts to eligible institutions based on the average amount of restricted research funds expended by each institution per year for the preceding three fiscal years. Current statute defines the amount of restricted research funds expended by an institution as the amount of those funds reported to the Texas Higher Education Coordinating Board (THECB) for that fiscal

year, subject to adjustment by THECB.

Sec. 62.131 establishes the core research support fund to provide funding promoting increased research capacity at emerging research universities.

Sec. 62.132 defines an “eligible institution” for the core research support fund as an institution that is designated as an emerging research university under the THECB accountability system.

Sec. 62.134 establishes the manner in which funding from the core research support fund may be appropriated to eligible institutions. For each fiscal year the fund is required to appropriate amounts to eligible institutions as:

- 50 percent based on the average amount of restricted research funds expended by each institution per year for the preceding three fiscal years; and
- 50 percent based on the average amount of total research funds expended by each institution per year for the preceding three fiscal years.

Sec. 62.145 establishes that a general academic teaching institution becomes eligible to receive funding from the national research university fund for a fiscal year if the institution:

- is designated as an emerging research university under the THECB accountability system;
- expended at least \$45 million in restricted research funds in each of the two fiscal years preceding the fiscal year of the appropriation; and
- satisfies at least four of certain established criteria, including that the institution awarded 200 doctorate degrees for each of the preceding two academic years and that the institution demonstrated high academic achievement from its freshman class for the two preceding academic years.

A general academic teaching institution that becomes eligible to receive such funding remains eligible to receive funding in each subsequent fiscal year.

Sec. 62.148(a), (b), and (c) pertain to the distribution of appropriated funds to eligible institutions. The comptroller is required to distribute money from the national research university fund to eligible institutions for each fiscal year. The total amount appropriated from the national research university fund for any fiscal year may not exceed an amount equal to 4.5 percent of the average net market value of the investment assets of the fund for the 12 consecutive fiscal quarters ending with the last quarter of the preceding fiscal years. Each eligible institution is entitled to a distribution in an amount equal to the sum of one-seventh of the total amount appropriated and an equal share of any amount remaining after distributions are calculated, not to exceed an amount equal to one-fourth of that remaining amount.

DIGEST:

Texas University Fund. CSHB 1595 would redesignate the national research university fund as the Texas University Fund (TUF). The bill would allocate appropriations from TUF to provide a dedicated, independent, and equitable source of funding to enable certain general academic teaching institutions, rather than emerging research universities, to achieve national prominence as major research universities and drive the Texas economy. The bill would define TUF as a fund outside the state treasury held by the comptroller and move the authority to administer and invest the fund from the comptroller to the Texas Treasure Safekeeping Trust Company. The bill would require the trust company to determine the amount available for distribution from the fund in accordance with a distribution policy adopted by the comptroller that was designed to preserve the purchasing power of the fund's assets over a rolling 10-year period and provide a stable and predictable stream of annual distributions.

The bill would establish TUF as consisting of money appropriated or transferred to the credit of the fund, gifts and grants contributed to the fund, and the interest and other earnings attributable to the investment of money in the fund. The bill would remove the responsibility of the

comptroller to deposit to the credit of the fund all interest, dividends, and other income earned from investment of the fund but would allow the comptroller to solicit and accept gifts or grants from any public or private source for the fund.

Eligibility. CSHB 1595 would establish Texas State University, Texas Tech University, the University of Houston, and the University of North Texas as general academic teaching institutions eligible to receive distributions from TUF for each fiscal year. Any additional general academic teaching institution would be eligible if the Legislature appropriated money to TUF in an amount sufficient to ensure that the market value of each other eligible institution's share of the money distributed for that fiscal year would be at least the same as the market value of the share for the fiscal year immediately preceding that in which the institution became eligible. Other qualifications for eligibility would include if the institution was not entitled to participate in the funding provided for The University of Texas and Texas A&M systems, awarded, on average, at least 45 research doctoral degrees per academic year during the preceding three academic years, and on average spent in federal and private research funds per fiscal year during the preceding three fiscal years at least:

- \$20 million for the fiscal year beginning September 1, 2023; or
- for fiscal years beginning on or after September 1, 2024, the amount determined for the preceding fiscal year adjusted by the increase in the rate of inflation during the preceding fiscal year, as determined by THECB based on changes in the consumer price index.

The bill would amend the total amount appropriated from TUF for a fiscal year to not exceed an amount equal to 7 percent of the average net market value of the investment assets of TUF, as determined by the comptroller, for a period set by comptroller rule. The bill would require the amount appropriated from the fund for distribution in a fiscal year to be allocated as 75 percent to the permanent endowment for education and research base funding and 25 percent to research performance funding.

Permanent endowment for education, research base funding, and research performance funding. CSHB 1595 would establish the permanent endowment for education and research base funding. For each fiscal year, the bill would entitle to an eligible institution a distribution of a portion of the total amount allocated for the permanent endowment for education and research base funding for that fiscal year. The portion to which an eligible institution would be entitled would be a certain fraction, computed using certain calculations established in the bill.

The bill would establish the minimum amount in federal and private research funds required to be spent in each of the preceding two fiscal years to be:

- \$45 million for the fiscal year beginning September 1, 2023; or
- for fiscal years beginning on or after September 1, 2024, the amount determined for the preceding fiscal year adjusted by the increase in the rate of inflation during the preceding fiscal year, as determined by THECB based on changes in the consumer price index.

The bill would entitle an eligible institution to receive a distribution only if:

- in each of the fiscal years beginning September 1, 2020, and September 1, 2021, the institution spent a certain amount in federal and private research funds; or
- the Legislature appropriated money to the fund in an amount sufficient to ensure that, for the first fiscal year for which the institution would receive a distribution, the market value of each other eligible institution's share of the distribution for that fiscal year was at least the same as the market value of that share for the fiscal year immediately preceding the fiscal year in which the institution became eligible for a distribution.

An institution that became eligible to receive a distribution under the aforementioned provisions would remain eligible to receive a distribution in each subsequent fiscal year.

CSHB 1 would establish provisions for research performance funding. From 85 percent of the amount allocated for research performance funding for a fiscal year, an eligible institution would be entitled to a distribution for the fiscal year in an amount proportionate to the average amount of federal and private research funds the institution spent per fiscal year during the preceding three fiscal years as compared to the average amount of the fund all eligible institutions spent per fiscal year during that period. Additionally, from 15 percent of the amount allocated for research funding for a fiscal year, an eligible institution would be entitled to a distribution for that fiscal year in an amount proportionate to the average number of research doctoral degrees the institution awarded per academic year during the preceding three academic years as compared to the average number of those degrees all eligible institutions award per academic year during the period. The bill would require THECB to establish a method for determining the amount to which each eligible institution would be entitled.

The bill would amend the provisions regarding the use of allocated funds by an eligible institution to be aligned with the goals of the state's master plan for education developed by THECB. The bill also would add to the list of permitted activities for which such money could be used, including increasing technology transfer, commercialization, and patent development, and increasing the number of research doctoral graduates in the state.

Reporting. For the purpose of reporting the amount of an institution's institutional endowment funds, the bill would allow each eligible institution to include as a true endowment the institution's share of the market value of the fund corresponding to the share of the permanent endowment for education and research base funding to which the institution was entitled for a fiscal year.

For each fiscal year, the Legislative Budget Board, in consultation with THECB, would be required to determine the amount of each distribution from the fund to which each eligible institution was entitled and to report

those determinations to the Legislature and the comptroller.

Texas comprehensive research fund amendments. CSHB 1595 would amend the fund mechanisms of the Texas comprehensive research fund. The bill would require the Texas comprehensive research fund to appropriate each fiscal year amounts to eligible institutions in the same manner that research funding was appropriated to institutions eligible to receive TUF funding. The bill also would establish Texas State University, Texas Tech University, the University of Houston, and the University of North Texas as being ineligible for the Texas comprehensive research fund.

Core research support fund amendments. CSHB 1595 would amend the purpose statement for the core research support fund, requiring the fund to provide funding to promote increased research capacity at certain institutions of higher education eligible to participate in the available university fund. The bill would require the core research support fund to appropriate each fiscal year amounts to eligible institutions in the same manner that research performance funding was appropriated to institutions eligible to receive TUF funding. The bill would include a definition for “general academic teaching institution” that consisted of The University of Texas and Texas A&M systems, among other universities. The bill would redefine “eligible institution” for the core research support fund as a general academic teaching institution that:

- would be entitled to participate in funding to support The University of Texas and Texas A&M systems;
- spent a certain amount in federal and private research funds per fiscal year during the preceding three fiscal years; and
- awarded on average at least 45 research doctoral degrees per academic year during the preceding three academic years.

Other provisions. The bill would repeal certain sections of the Education Code, including:

- Sec. 62.096(a), (b), and (e), and sec.62.135(b), regarding the

- verification of an institute's restricted research funds information;
- Sec. 62.142(2), regarding the definition of "endowment funds";
 - Sec. 62.146, regarding accounting standards and information verification;
 - Sec. 62.147, regarding the funding eligibility of The University of Texas at Austin and Texas A&M University; and
 - Sec. 62.148(d), (e), and (f), regarding the distribution of funds to eligible institutions.

The bill would make conforming language changes throughout.
The bill would take effect September 1, 2023.

**SUPPORTERS
SAY:**

By allowing more Texas higher education institutions to receive additional research funding, CSHB 1595 would provide educational and economic benefits to the state. The bill would create positive and transformative change for many universities in the state and could increase research investments awarded to Texas. CSHB 1595 would promote high quality research opportunities for the state and support the state's Talent Strong Texas higher education strategic plan. The bill also would include mechanisms for the research fund's future growth, which could help to ensure the fund's long-term success.

**CRITICS
SAY:**

No concerns identified.

NOTES:

According to the Legislative Budget Board, the fiscal implications of the bill cannot be determined as the timing and amounts of any appropriations from the Texas University Fund are unknown.

CSHB 1595 is the enabling legislation for CSHJR 3 by Bonnen, which is also on the calendar for second reading consideration today.